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SENSITIVE  
SIPDIS  
PASS TO REPRESENTATIVE BOEHNER  
STATE PASS TO USAID AND USTR

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SUBJECT: Scenesetter for CODEL Boehner

**¶11.** (SBU) Since the restoration of democracy after Operation Just Cause twenty years ago, Panama has established and consolidated a democratic, stable government, achieving a new confidence, dynamism, and psychological sovereignty that complements the 1999 completion of its territorial sovereignty. Panama has leveraged its superb stewardship of the Canal and central location to create an economic and logistical architecture that is now yielding strong economic growth. However, opportunities created by the growth remain elusive to many Panamanians due to weak government resulting in continued income inequality, lack of access to quality public education, inadequate public infrastructure (especially transportation and health), and limited attention to economic development outside metropolitan Panama City. Furthermore, the recent rise in violent crime related to narco-trafficking has alarmed citizens, investors, and tourists alike, as well as the U.S. Government, which wishes to see Panama secure and prosperous. Panama is at a crossroads where it could either complete its path to becoming a fully developed nation, fueled by the needs of growing businesses serving a global market; or Panama could falter as criminal enterprises and poor governance block the openness and opportunity needed for it to succeed.

Government and Politics

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**¶12.** (SBU) Businessman Ricardo Martinelli won the Presidency in May elections, and his "Alliance for Change" government was sworn into office on July 1. In addition to Martinelli's "Democratic Change" party, the coalition includes the Panamenista Party led by Vice President/Foreign Minister Juan Carlos Varela, and two smaller parties: Molirena and Patriotic Union. The Alliance also controls the unicameral National Assembly with 44 of 71 seats. Martinelli's program of providing subsidies to elderly Panamanians without pensions, his vow to end impunity for corrupt officials, and his promise to overhaul public transportation in Panama City have kept his popularity ratings above 80 percent. On the other hand, his fledgling government has been criticized for non-transparent procurement processes, cronyism in government

appointees, and changing terms of contracts and concessions previously granted to investors. The main opposition party, the Revolutionary Democratic Party (PRD), is still reeling from its resounding electoral defeat. The PRD elected a temporary national executive committee in October, and hopes to revise its bylaws and elect new party leadership well before the primary process for 2014 national elections begins.

#### Bilateral relations

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¶3. (SBU) For 96 years, the United States maintained extensive influence in Panama, establishing close and enduring people-to-people contacts, building and operating the Canal and a series of military bases, and exercising sovereignty over the Canal Zone. Panamanians admired many things about the U.S., but at the same time they saw the U.S. as a colonial and paternalistic power, and they considered the 1903 treaty that granted the U.S. rights over the Canal to be exceptionally unfair. For decades, bilateral relations were punctuated by frequent and occasionally violent protests, until the 1977 Panama Canal treaties created a process to hand over the Canal Zone.

¶4. (SBU) Because of this shared history, our relationship with Panama is complex and nuanced. While the vast majority of Panamanians have a favorable view of the U.S., and the Martinelli Administration is eager to be seen as pro-American, Panama also maintains a strong sense of independence, fiercely guards its sovereignty, and has often sought to limit U.S. influence. Because of its key location and role in global trade, Panama is vital to the prosperity and security of the United States, and the long-term interests of both Panama and the U.S. are best served by cultivating a strong partnership on economic and security issues. Our goal is for Panama to remain a secure, prosperous, and democratic country that continues to view the U.S. as its partner of choice.

#### Security Issues: Narcotrafficking and Counter-terrorism

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¶5. (SBU) The Embassy's top priority is the security of the Canal and ports as vital economic infrastructure. Without security, Panama cannot build or maintain the long-term prosperity and strong democratic systems required to take it to "First World" status. Panama has a serious problem with skyrocketing violent crime, which is the number one concern of Panamanians. Significantly increased drug trafficking is the cause of that spike in violent crime, and we believe Panama's best strategy is to push drug trafficking away from its shores and make it difficult for organized crime networks to operate.

¶6. (SBU) Panama's territorial waters are one of the main drug trafficking routes in Central America, with recent estimates indicating as much as 50% of all cocaine reaching Mexico has transited through Panama. This trafficking threatens Panama's security and stability. Drug trafficking organizations move drugs through Panama's territorial waters on short hops, requiring a sophisticated network of lookouts, refueling stations, and logistical support as loads are moved on to land and back to water. This activity leads to local corruption and strengthens gangs that are used to distribute drugs, support the traffickers, carry out murders, and contribute to logistical networks. Major international drug trafficking organizations from Colombia and Mexico are present, as is the FARC's 57th Front, which traffics drugs and weapons through Panama.

17. (SBU) Our extensive cooperation with numerous GOP entities consistently produces some of the highest cocaine seizures in the hemisphere, with 60 tons seized in 2007, 45 in 2008, and 38 so far this year. Taking advantage of Merida Initiative funds, Embassy Panama is implementing an integrated inter-agency approach to the problem. The foundation for our strategy is community policing. Post is working with the Panamanian National Police to implement a community policing strategy, in conjunction with the Miami-Dade Police Department, to train both police and communities to identify criminal activities and to report on police corruption and malfeasance. In addition, USAID Panama is using Merida funds to develop youth centers in high risk areas, in conjunction with Panamanian NGOs and faith-based organizations, which will provide vocational training, extra-curricular activities, and safe-haven recreational activities, supporting the government of Panama's own youth-at-risk programs.

18. (SBU) Panama's main terrorism concern is an attack against the Canal. The Panama Canal Authority and the Government of Panama work closely together to protect the Canal, and the Embassy's Office of Defense Cooperation has trained several elite squads of security forces to support protection of the Canal in the event of an attack. Panama co-hosts the annual PANAMAX exercise, a multinational security training exercise tailored to the defense of the Canal.

19. (SBU) Panama's other main terrorism concern is the presence of drug trafficking organizations and elements of the FARC in the Darien province along the Colombian border. With a population of no more than 50,000 and only one main road, the Darien is an underdeveloped region which is physically and psychologically remote for most Panamanians. Elements of the FARC have long used the parts of this region closest to the border as a rest and relaxation zone, in addition to organizing drug trafficking and logistical operations in support of other FARC units inside Colombia. In trying to confront this threat, Panama is limited by the fact it has no military forces, following their dissolution after Operation Just Cause in 1989. Panama's security is the responsibility of the Panamanian National Police (PNP), the National Aero-Naval Service (SENAN), the National Frontier Service (SENAFRONT), and the Institutional Protection Service (SPI-a secret service equivalent). Through our Narcotics Affairs Section and Office of Defense Cooperation, the Embassy has been working with limited funds to assist the development of these forces with training, equipment, and logistical support.

110. (SBU) The Embassy is implementing a new program funded with Section 1207 of the NDAA security funds, which is designed to deny the FARC a safe haven and disrupt criminal organizations in Darien. That program aims for a whole-of-government approach to the region by improving government/citizen coordination, preventing recruitment into criminal organizations, encouraging demobilization and/or the arrest of current members, and improving citizen security.

111. (SBU) Post's Country Team features representatives of DEA and FBI, the Department of Homeland Security's ICE, CBP, CIS, and Coast Guard, as well as new officers from the IRS and Federal Aviation Administration. The Office of Defense Cooperation manages a robust security assistance and training program. These offices are expanding the Embassy's and the Panamanian government's ability to investigate and combat the organizations trafficking in weapons, money, and people.

¶12. (SBU) Panama is cognizant of the benefits of its geographic location and is working to build upon it by building a third set of locks for the Canal to facilitate additional East-West trade, and expanding the logistics operations to facilitate additional North-South trade. It also aims to increase domestic and international investment in tourism and agriculture. Panama has been one of the few countries in the region to maintain positive economic growth over the past year, largely due to maintaining sound macroeconomic policies designed to increase infrastructure investment, reduce government debt, and liberalize its trade regimes.

¶13. (SBU) Panama's GDP grew 8.5 percent in 2006, 11.5 percent in 2007, and 9.2 percent in 2008. However, due to the global economic crisis, its GDP growth rate was 2.4 percent in the first half of 2009. The main drivers of growth have been capital investment, port activity, tourism, construction, and goods and services exports. Despite the impressive economic growth which has resulted in Panama's GDP being almost \$40 billion, the distribution of Panama's wealth and income remains highly skewed, with Panama having the second highest degree of inequality in the Americas. The poverty rate is 28.5 percent, and extreme poverty is 12 percent, which creates palpable resentment. The 2010 government budget is \$10.5 billion, up over 5 percent from the 2009 budget. Panama projects a deficit of a healthy 1.9 percent of the annual nominal GDP, resulting in a total public debt which has dropped to 42 percent of the GNP. The Martinelil Administration has an extensive infrastructure investment plan, including building a Panama City metro, expanding the highway network, and building or expanding airports throughout the country.

¶14. (SBU) The United States maintains extensive trade and investment ties with Panama. The U.S. exported \$4.9 billion to Panama in 2008, and imported \$379.1 million, resulting in a trade surplus of \$4.5 billion. US exports were dominated by oil and capital- and technology-intensive manufactured goods, such as aircraft, pharmaceuticals, machinery, medical equipment, and motor vehicles. Most US imports from Panama are seafood, including fresh fish and shrimp, and repaired goods. The stock of U.S. foreign direct investment in Panama was \$6.2 billion in 2007 (latest data available), up from \$4.7 billion in 2006. US FDI in Panama is concentrated largely in the non-bank holding companies, energy, finance, insurance and wholesale trade sectors.

¶15. (SBU) Panama's economic foundation is the Canal through which passes roughly five percent of world commerce. The Panama Canal Authority (ACP) has embarked on a \$5.25 billion expansion, the centerpiece of which is a third set of locks capable of handling the largest class of container vessels. A growing network of ports, including Manzanillo International Terminal in Colon (which is partially owned by U.S. firm Carrix and has invested \$500 million), facilitates trans-isthmian logistics along with the revitalized Kansas City Southern Railway between Panama City and Colon. Panama Ports (Hutchison Port Holdings, Inc. of Hong Kong) launched a \$240 million expansion of its Pacific and Caribbean terminals, augmenting the GOP's construction of the \$215 million Panama-Colon Highway. The Colon Free Trade Zone, the second largest free trade zone in the world, generated over \$19 billion in trade last year. It serves as a hemispheric "one-stop shop" for sourcing, financing, and delivering products (mostly from Asia) to Latin American markets. Panama's robust financial center, with 90 banks and \$62 billion in assets fuels the purchase and movement of cargo and facilitates the absorption of robust foreign direct investment inflows that totaled \$2.4 billion for 2008.

¶16. (SBU) In recent years, Panama has reached beyond its traditional maritime and financial networks to build connectivity of data, knowledge and people. Panama lies at the junction of five high bandwidth submarine fiber optic cables, placing Panama City

second only to New York City in bandwidth availability. This feature was key in the decisions of Dell and Hewlett-Packard to locate regional headquarters at the former Howard Air Base, which is undergoing a \$705 million transformation as a regional manufacturing and distribution hub. Panama's tourism industry has

similarly mushroomed in the past five years, with tourist arrivals increasing from 600,000 to 1.6 million between 2000 and 2008. Tocumen International Airport recently completed an \$85 million expansion of its international terminal, complimented by the concurrent growth in its flag carrier, Copa (which codeshares with Continental Airlines).

**¶17. (SBU)** On the other hand, financial transparency remains an issue. The GOP has concluded double-taxation treaties (DTTs) with Mexico and Italy, and is in the process of negotiating DTTs with Spain and several other countries (it needs a total of 12) in order to avoid being black-listed by the Organization for Economic Cooperation and Development (OECD) as a tax haven. Panama continues to send mixed signals about negotiating a Tax Information Exchange Agreement (TIEA) with the United States, especially given the uncertainty of securing a Panama-U.S. Free Trade Agreement. The GOP's current stated position is that it wishes first to complete double-taxation treaties with countries willing to negotiate them before turning to TIEAs. While Panama has generally effective anti-money laundering/ anti-terrorist financing banking regulations, increasing regulation of "bearer shares" is the U.S. government's most predominant financial crimes recommendation for Panama. Held anonymously by "the bearer," these instruments allow the persons possessing them to store and transfer funds with little risk of detection. Bearer shares are used extensively in money laundering and by U.S. taxpayers concealing assets from the IRS in overseas banks. Additionally, the Martinelli Administration has taken some steps which have caused people to question whether the government will maintain its traditionally open investment climate. Actions taken against international companies, including U.S. investments Manzanillo International Terminal and AES, to change the terms of public concessions, and proposed Law 71 affecting coastal property rights, have contributed to an impression that the security of an investment in Panama has decreased.

## Education

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**¶18. (SBU)** Employers, and particularly U.S. firms, consistently report a lack of skilled labor, in particular a lack of English-speaking workers. There is a general perception in Panama that the national education system must be drastically improved to have a well-trained workforce that meets demand. Public education expenditures have increased and represent about 6% of GDP, most of which is spent on current expenses such as salaries. The Ministry of Education is charged with improving instructional facilities, curriculum, and teacher preparation and is looking for ways to improve English teaching and learning throughout the country. Unfortunately progress has been slow on that front; particularly in English learning, since the Minstry of Education declined to extend funding to one large, independent English teaching program that yielded excellent results. School teachers are inadequately prepared and have insufficient materials and support in the classroom. A recent UNESCO study indicated that Panama is below the average in Latin America for basic education infrastructure indicators such as restrooms and potable water.

**¶19. (SBU)** The workforce has on average only nine years of education. School attendance is compulsory between the ages of seven and fifteen, or until the six grades of primary school have been completed. Primary school is free for all children. Nearly all Panamanians (94 percent) of primary school age are enrolled and 92.5 percent of the age group completes primary school. At the secondary level, 57.8 percent of those in the corresponding age

group are enrolled and of those, only half complete their studies. Inequities in access and completion are acute for children living in indigenous, rural, and marginal urban communities, with a difference in years of schooling between urban and indigenous groups of seven years. University level study has progressed from the 7 percent enrollment rate prevalent in the 1950s to a current rate of 25 percent. Nevertheless, there are still significant socioeconomic discrepancies as only 3 percent of the poor attend university compared to 31 percent of the non-poor, according to a 2002 study.

¶20. (SBU) Because of our historic engagement, Panama has uniquely strong cultural ties with the U.S. Recent governments have worked to extend that shared legacy by significantly boosting funding for overseas higher education, including in the U.S. Many Panamanians, however, do not speak English well enough to undertake U.S. study. The Embassy is working to provide more opportunities for English language study for college-bound students through an extension of the Fulbright program and by providing an increasing number of English-language Access Micro-scholarships. The Embassy also offers programs for undergraduates and high school students from economically underprivileged sectors that expose them to the U.S. and allow them to improve their English skills, making them more competitive for admission to colleges in the U.S. We are exploring ways to work with the private sector and NGOs to increase scholarship opportunities and foster a robust public dialogue about education reform.

#### Consular Issues

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¶21. (SBU) The American citizen population resident in Panama is estimated to be 27,000. Because of historic ties between the two countries and specific language in the Immigration and Nationality Act dealing with employees of the Panama Canal Zone, many of these Americans have Panamanian roots and are dual citizens.

¶22. (SBU) Retirees: Our best guess, based on estimates of persons receiving federal pensions and Social Security benefits, is that there are perhaps 10,000 Americans who have moved to Panama to retire. They come to take advantage of the favorable climate, dollarized economy and heretofore low cost of living. We estimate about 15 Americans join this group daily, based on notarizations we provide as part of the process for them to obtain Panamanian drivers licenses. Many of these Americans have no significant problems adjusting to life in Panama. However, complaints about property disputes have been steadily increasing, as have concerns about corruption, violent crime and Panama's slow and opaque judicial system.

¶23. (SBU) Prisoners: Currently, there are 20 Americans incarcerated in Panama, all but three of whom are imprisoned for drug smuggling.

¶24. (SBU) Child Custody Cases: We are aware of 18 children who have been taken to Panama by one parent without the permission of the parent remaining in the United States. At the request of the U.S. parent, we often conduct Welfare and Whereabouts visits to the children's homes.

¶25. (SBU) Nonimmigrant and Immigrant Visas: Nonimmigrant visa demand continues to grow by approximately 10% annually. In FY2009, we processed 35,387 nonimmigrant visa applications, including for recipients of Fulbright scholarships and international visitor

program participants, and 651 immigrant visa applications, uniting friends and families.

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